

VZCZCXYZ0003
RR RUEHWEB

DE RUEHBO #3729/01 2832144
ZNR UUUUU ZZH
R 092144Z OCT 08
FM AMEMBASSY BOGOTA
TO RUEHC/SECSTATE WASHDC 5043
INFO RUEHBR/AMEMBASSY BRASILIA 8432
RUEHCV/AMEMBASSY CARACAS 1158
RUEHLP/AMEMBASSY LA PAZ OCT LIMA 6634
RUEHZP/AMEMBASSY PANAMA 2488
RUEHQT/AMEMBASSY QUITO 7324
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS BOGOTA 003729

SENSITIVE
SIPDIS

WHA/EPSC FOR MROONEY; EEB/IFD/OMA FOR ASIROTIC; WHA/AND:
RMERRIN; TREASURY FOR MEWENS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [CO](#)
SUBJECT: COLOMBIA LIFTS CAPITAL CONTROLS IN THE FACE OF
GLOBAL FINANCIAL CRISIS

REF: A. BOGOTA 3588
[1](#)B. BOGOTA 3289
[1](#)C. BOGOTA 3076

[1](#)1. (SBU) SUMMARY On October 8, President Uribe announced the elimination of remaining capital controls on foreign investment, as part of a plan to ensure liquidity to Colombian markets in the face of the worsening global financial crisis. Uribe also outlined draft legislation that

would offer amnesty of tax obligations on any previously undeclared, licit capital that Colombians bring back from abroad. Further to these measures, the GOC has said it will use upcoming meetings at multilateral financial institutions to secure its international financing needs over the next several years. Financial sector contacts indicate that credit markets in Colombia are functioning normally, but nonetheless applaud the GOC moves as prudent and of long-term benefit. END SUMMARY.

FINANCIAL CRISIS PUSHES DOWN COLOMBIAN PESO AND STOCKS

[1](#)2. (U) While most analysts believe the Colombian economy's exposure to the global financial crisis to be limited (Ref A), Colombia, like other countries in the region, has felt effects in the form of a weaker currency and losses in the stock market. At the beginning of September, the exchange rate was 1932 pesos per dollar. On October 9, it dropped to 2326 pesos per dollar, its lowest level since the end of [1](#)2006. The weaker peso, presumably a result of investors seeking refuge in dollar-denominated assets, is a welcome development for Colombian exporters, who less than four months ago were trying to cope with an exchange rate of fewer than 1700 pesos per dollar (Ref C). Colombia's primary stock market index (IGBC) has fallen by 12 percent in the last month.

GOC TAKES MEASURES TO ENSURE LIQUIDITY

[1](#)3. (SBU) In a May 2007 effort to stem the appreciation of the peso, the GOC announced a series of measures to restrict the inflow of foreign portfolio investment. The measures placed deposit requirements of up to 50 percent of the investment for periods extending to two years. In September 2008, the GOC lifted the deposit requirement for investment in stocks, but left it in place for fixed income securities (Ref B). On October 8, President Uribe lifted all remaining capital controls, noting that the original intent was for them to be

temporary. Many in the financial community had criticized the controls and noted they did little to stem the peso's appreciation. While many doubt that lifting the capital controls will have a significant impact on the peso's current depreciation, they nonetheless applaud the move, as the controls were a major factor international rating agencies cited in withholding an investment grade rating from Colombia.

¶4. (U) The President also announced the GOC would submit legislation which would grant amnesty to repatriated Colombian capital that had not previously been declared to tax authorities, as long as the money had not been used for illicit purposes. While the details of the draft legislation had not been finalized, critics of the proposal noted that the Constitutional Court had deemed tax amnesty un-Constitutional.

¶5. (U) Uribe also announced that during meetings starting October 10 in Washington, Minister of Finance Zuluaga would work with the IMF and World Bank to secure the international financing Colombia needs for 2009 and possibly beyond. The goal of all of these moves, according to Uribe, was to avoid crises of liquidity and confidence in Colombia, in light of world events.

COMMENT: COLOMBIA TRYING TO STAY AHEAD OF THE CURVE

¶6. (SBU) Carlos Rojas, Vice President of the Colombian Association of Financial Institutions, said a credit crisis in Colombia was not evident at this point but that the GOC's focus on ensuring liquidity was nonetheless prudent. The

Central Bank, with a record 24 billion dollars in foreign reserves, is well positioned to inject liquidity into the Colombian banking sector if the need were to arise. We have already begun to see public calls for the Central Bank to lower its inter-bank rate, currently at 10 percent. While Colombia is certainly not immune from the global financial gyrations and is already seeing economic growth slow, the GOC has begun to take prudent steps to help Colombia weather the economic storm.

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